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馬 鞍 山 鋼 鐵 股 份 有 限 公 司

Maanshan Iron & Steel Company Limited

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00323)

SUMMARY OF 2011 INTERIM RESULTS ANNOUNCEMENT

1. IMPORTANT NOTICE

1.1 The board of directors (the “Board”), the supervisory committee, the directors, the supervisors and senior management of Maanshan Iron & Steel Company Limited (the “Company”) warrant that there are no false representations or misleading statements contained in, or material omissions from, this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.

This summary of interim results has been extracted from the interim report. Investors should read carefully the full text of the interim report for details.

1.2 All directors of the Company attended the Board meeting.

1.3 The interim financial reports of the Company are unaudited.

1.4 No appropriation of fund on a non-recurring basis by the controlling shareholder or its related parties was found in the Company.

1.5 The Company did not provide external guarantees which were in violation of stipulated decision-making procedures.

1.6 Mr. Su Jiangang, legal representative of the Company, Mr. Qian Haifan, person overseeing the accounting operations, and Mr. Zhang Qianchun, head of Accounting Department, make representation in respect of the truthfulness and completeness of the financial statements contained in the interim report.

2. COMPANY BASIC INFORMATION

2.1 Company profile

| | | |
|------------------------|---|---|
| Stock abbreviation | Magang Stock | Maanshan Iron & Steel |
| Stock code | 600808 | 323 |
| Places of listing | Shanghai Stock Exchange | The Stock Exchange of Hong Kong Limited |
| | Secretary to the Board | Representative for Securities Affairs |
| Name | Gao Haijian | Hu Shunliang |
| Correspondence address | No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC | No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC |
| Telephone | 86-555-2888158/2875251 | 86-555-2888158/2875251 |
| Fax | 86-555-2887284 | 86-555-2887284 |
| Email address | mggfdms@magang.com.cn | mggfdms@magang.com.cn |

2.2 Major financial data and indicators

2.2.1 Major accounting data and financial indicators

| | As at the end of the reporting period | As at the end of the previous year | Unit: '000 Currency: RMB Increase/(decrease) at the end of the reporting period as compared to the end of the previous year (%) |
|--|---------------------------------------|---|--|
| | Reporting period (January to June) | Corresponding period of the previous year | Increase/(decrease) at the reporting period as compared to the corresponding period of the previous year (%) |
| Total assets | 79,712,712 | 70,104,925 | 13.7 |
| Owners' equity (or shareholders' equity) | 27,232,236 | 27,294,087 | -0.23 |
| Net assets per share attributable to shareholders of the Company (RMB/share) | 3.536 | 3.544 | -0.23 |
| Operating profit | 439,079 | 1,388,799 | -68.4 |
| Total profit | 488,378 | 1,469,660 | -66.8 |
| Net profit attributable to shareholders of the Company | 310,052 | 1,041,639 | -70.2 |
| Net profit excluding non-recurring gains or losses attributable to shareholders of the Company | 274,290 | 972,098 | -71.8 |
| Basic earnings per share (RMB) | 0.0403 | 0.1353 | -70.2 |
| Net cash flows from operating activities | 1,572,090 | -514,205 | N/A |
| Net cash flows per share from operating activities (RMB) | 0.2041 | -0.0667 | N/A |

2.2.2 Items of non-recurring gains or losses

Unit: '000 Currency: RMB
Amount

| Items of non-recurring gains or losses | Amount |
|--|---------------|
| Net gains or losses from disposal of non-current assets | -2,655 |
| Government subsidies recognized in current gains and losses (excluding those closely related to the Company's normal operations and granted on under the State's policies according to certain quota of amount or volume) | 53,536 |
| Gains or losses from contingency items unrelated to the normal business operations of the Company | -1,840 |
| Gains/losses from fair value changes of trading financial assets and trading financial liabilities, and investment income from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets, except effective hedging activities related to the Company's normal operations | 223 |
| Except for the above items, other non-operating income and expenses | 258 |
| Income tax effect | -11,887 |
| Effect on minority interests (After tax) | -1,873 |
| Total | <u>35,762</u> |

3. MOVEMENTS IN SHARE CAPITAL AND MAJOR SHAREHOLDING STRUCTURE

3.1 Table on movement in the Company's shareholding structure

| | Prior to the current movements | | Increase/(decrease) of current movements (+, -) | | | | | Unit: Shares After current movements | |
|--|--------------------------------|------------|---|-------------|---------------------------|----------|-----------|---|------------|
| | Number of shares | (%) | Issue of new shares | Bonus share | Transferred from reserves | Others | Sub-total | Number of shares | (%) |
| | | | | | | | | | |
| I. Shares subject to selling restrictions | - | - | - | - | - | - | - | - | - |
| 1. State-owned shares | - | - | - | - | - | - | - | - | - |
| 2. State-owned legal person shares | - | - | - | - | - | - | - | - | - |
| 3. Other domestic shares including: | | | | | | | | | |
| Shares owned by domestic legal persons | - | - | - | - | - | - | - | - | - |
| Shares owned by domestic natural persons | - | - | - | - | - | - | - | - | - |
| 4. Foreign owned shares including: | | | | | | | | | |
| Shares owned by foreign legal persons | - | - | - | - | - | - | - | - | - |
| Shares owned by foreign natural persons | - | - | - | - | - | - | - | - | - |
| II. Shares not subject to selling restrictions | 7,700,681,186 | 100 | - | - | - | - | - | 7,700,681,186 | 100 |
| 1. RMB-denominated ordinary shares | 5,967,751,186 | 77.50 | - | - | - | - | - | 5,967,751,186 | 77.50 |
| 2. Domestic listed foreign shares | - | - | - | - | - | - | - | - | - |
| 3. Foreign listed foreign shares | 1,732,930,000 | 22.50 | - | - | - | - | - | 1,732,930,000 | 22.50 |
| 4. Others | - | - | - | - | - | - | - | - | - |
| III. Total number of shares | <u>7,700,681,186</u> | <u>100</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,700,681,186</u> | <u>100</u> |

3.2 Number of shareholders and shareholding structure

Unit: Shares

Total number of shareholders at the end of the reporting period

383,295

Shareholding of the top ten shareholders

| Name of shareholder | Type of shareholders | As a percentage to number of shares held (%) | Total number of shares held | Number of shares held with selling restrictions | Number of pledged or frozen shares |
|--|-------------------------|--|-----------------------------|---|------------------------------------|
| Magang (Group) Holding Company Limited | State-owned shareholder | 50.47 | 3,886,423,927 | - | - |
| HKSCC (Nominees) Limited | Foreign shareholder | 22.15 | 1,705,977,897 | - | Unknown |
| 中國建設銀行－上投摩根 中國優勢證券投資基金 | Others | 1.06 | 81,787,315 | - | Unknown |
| 中國建設銀行－鵬華價值優勢 股票型證券投資基金 | Others | 0.58 | 45,000,000 | - | Unknown |
| 中國農業銀行－益民創新優勢 混合型證券投資基金 | Others | 0.33 | 25,152,946 | - | Unknown |
| 王勇 | Others | 0.27 | 20,520,000 | - | Unknown |
| 中國銀行－嘉實滬深300指數 證券投資基金 | Others | 0.16 | 12,575,380 | - | Unknown |
| 通用電氣資產管理公司－GEAM 信託基金中國A股基金 | Others | 0.15 | 11,191,809 | - | Unknown |
| 中國工商銀行－華夏滬深300指數 證券投資基金 | Others | 0.12 | 8,870,000 | - | Unknown |
| 中銀國際－中行－第一生命保險 相互會社 | Others | 0.10 | 7,770,834 | - | Unknown |

Shareholding of the top ten shareholders without selling restrictions

| Name of shareholder | Number of shares held without selling restrictions | Type of shares |
|--|--|---------------------------------|
| Magang (Group) Holding Company Limited | 3,886,423,927 | RMB-denominated ordinary shares |
| HKSCC (Nominees) Limited | 1,705,977,897 | Overseas-listed foreign shares |
| 中國建設銀行－上投摩根中國優勢證券投資基金 | 81,787,315 | RMB-denominated ordinary shares |
| 中國建設銀行－鵬華價值優勢股票型證券投資基金 | 45,000,000 | RMB-denominated ordinary shares |
| 中國農業銀行－益民創新優勢混合型證券投資基金 | 25,152,946 | RMB-denominated ordinary shares |
| 王勇 | 20,520,000 | RMB-denominated ordinary shares |
| 中國銀行－嘉實滬深300指數證券投資基金 | 12,575,380 | RMB-denominated ordinary shares |
| 通用電氣資產管理公司－GEAM信託基金中國A股基金 | 11,191,809 | RMB-denominated ordinary shares |
| 中國工商銀行－華夏滬深300指數證券投資基金 | 8,870,000 | RMB-denominated ordinary shares |
| 中銀國際－中行－第一生命保險相互會社 | 7,770,834 | RMB-denominated ordinary shares |

Description of any connected relationships or concerted actions among the above-mentioned shareholders

There was no connected relationship between Holding and any of the afore-mentioned shareholders, nor were they concerted parties. However, the Company is not aware of whether the other shareholders mentioned above had connected relationship or whether they were concerted parties.

4. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

4.1 Appointment or removal of directors, supervisors and senior management of the Company

At the twenty-third meeting of the sixth session of the Board of the Company held on 14 July 2011, the resignations of Mr. Gu Jianguo as Chairman, director and member of the Nomination Committee of the Board; Mr. Su Jianguang as General Manager; Mr. Gao Haijian, Mr. Hui Zhigang, Mr. Shi Xiongliang and Mr. Ding Yi as Deputy General Managers; and Mr. Su Shihuai as Deputy General Manager and Chief Engineer were approved. At the meeting, Mr. Su Jianguang was elected as Chairman; Mr. Qian Haifan was appointed as General Manager; and Mr. Ren Qiang, Mr. Ren Tianbao, Mr. Yan Hua and Mr. Lu Kecong were appointed as Deputy General Managers according to Mr. Qian's nominations.

Save as disclosed herein, there was no other new appointment or removal of directors, supervisors and senior management during the reporting period.

5. REPORT OF THE BOARD

(1) The macro environment for production and operation

The global economy was overall on the road to a moderate recovery in the first half of the year. In the first quarter, the accelerated pace of recovery of major economies and the improved economy of the US and the nations in the euro zone provided an impetus for the growth in global demand for iron and steel, resulting in rising steel prices. In the second quarter, as the momentum of the US economic recovery began to slacken, US domestic demand was substantially restrained due to inflationary pressure. Added on top were rising prices of commodities in the euro zone, bitterly divided opinions among member countries of the euro zone, and the tendency of the European debt crisis to gradually spread to the core countries in the euro zone. All these led to falling overseas demand for iron and steel as well as declining steel prices. The price index for global steel products stood at 208.3 at the end of June, up 4.99% year-on-year, but down 6.76% compared to the end of March.

In the first half of the year, China's national economy maintained steady and relatively fast growth. GDP grew by 9.6% in the first half of the year, down 1.5 percentage points year-on-year; while society-wide fixed asset investment grew by 25.6%, down 0.6 percentage point year-on-year.

The oversupply problem in the steel product market remained acute because of an overcapacity and high output of the domestic iron and steel industry as well as a slackened growth of major steel consuming industries and their weakened demand for steel products. Prices of steel products in the domestic market fluctuated upward within a narrow range during April and May. Steel prices fell slightly in June after capacity was significantly released and the demand for steel products subsided, compounded with a decline in exports. The consolidated price index for domestic steel products as at the end of June was 134.40, up 17.15% year-on-year but up only 1.86% compared with the end of March.

As for imports and exports, according to customs statistics, exported steel products during the first half of 2011 amounted to 24,330,000 tonnes, a year-on-year increase of 3.16%, while imported steel products amounted to 8,030,000 tonnes, a year-on-year fall of 4.79%. Equivalent net export of crude steel amounted to 17,060,000 tonnes in the first half, a year-on-year increase of 6.85%.

Meanwhile, prices of externally purchased raw materials and fuels for iron and steel enterprises remained at high levels in the first half, causing relatively great difficulties to the production and operation of iron and steel enterprises. In the first half, the average CIF price of China's imported iron ore rose 46.4% year-on-year to a record high of US\$160.9/tonne. The room for iron and steel enterprises to make profits was squeezed further, resulting in low sales margins in the industry. Sales margins of member enterprises of the China Iron and Steel Association in the first half was 3.14%, a decrease of 0.4 percentage point year-on-year.

(2) *Production and operation of the Company*

Faced with such challenging external situations, the Company remained closely focused on “strengthening management innovation and furthering cost reduction and efficiency enhancement” as its business theme by stepping up its business efforts and vigorously implementing its business initiatives to overcome various difficulties, thus having ensured that production, operation, construction, reform and development progressed smoothly.

During the reporting period, the Company's major work included:

- Unleashed potential further by means of benchmarking and boosting cost reduction and efficiency enhancement. The Company reduced the manufacturing costs of products by fully unleashing potential by means of benchmarking in various aspects such as adjustment of product mix, internal similar furnaces and production lines, procurement and marketing systems as well as economic operation of energy power. During the reporting period, the Group produced a total of 7,690,000 tonnes of pig iron, 8,080,000 tonnes of crude steel and 7,640,000 tonnes of steel products respectively, representing year-on-year increases of 3.87%, 2.33% and 0.79% respectively (in which the Company produced 6,710,000 tonnes of pig iron and 6,990,000 tonnes of crude steel, representing year-on-year increases of 2.30% and 0.52% respectively; and the Company produced 6,550,000 tonnes of steel products, representing a year-on-year decrease of 1.16%.)
- Improved product mix and increased the proportion of key products. The Company managed to meet market demand on a timely basis by accelerating the development of strategically-guided products, carrying out mass production as soon as possible and increasing and enhancing the production of products with better profitability. With “research, production and marketing” as a platform, the Company accelerated the pace of product variety development and quality improvement, and increased the output of key products such as automobile plates, electrical steel and annealing-free cold heading steel so that capacity was created for carrying out mass production of a number of new products.

- Enhanced quality and improved the quality management system. During the reporting period, the Company continued to carry out a special project for rectifying auxiliary materials for steelmaking. By rationalising management processes, focusing on process control, strengthening fundamental management and striving to make technological breakthrough, the Company was able to consolidate and improve the effectiveness of cost reduction for the management of auxiliary materials for steelmaking. Moreover, the Company also devised and implemented a set of measures for professional quality management assessment, conducted ongoing professional quality management assessment in various aspects such as quality control of key products, product innovation and excellence awards and certification, management system operation and day-to-day quality management, thereby further improving the Company's quality management system.
- Monitored the market closely and adapted to market changes. The Company placed emphasis on the market trends for fuels, raw materials and steel products, carried out researches on such trends, and revised its marketing and procurement strategies as well as its product mix and fuel and raw materials portfolios in a timely manner. During the reporting period, the Group's total sales of steel products amounted to 7,640,000 tonnes, in which sales of steel plates, section steels, wire rods, train wheels and rims amounted to 3,690,000 tonnes, 1,300,000 tonnes, 2,550,000 tonnes and 100,000 tonnes respectively.
- Strengthened energy conservation and consumption reduction, and improved the standards of economic operation. By stepping up the tasks in three aspects, namely energy conservation through management, energy conservation through technologies and energy conservation through restructuring, the Company made full use of the role of the energy control centre and improved integrated energy utilisation efficiency. In the first half, overall energy consumption per tonne of steel amounted to 646 kg of standard coal, fresh water consumption per tonne of steel amounted to 4.43 cubic meters and self-generated power accounted for 71.92% of total power consumption.

(3) *The operations of the group's major invested entities under China Accounting Standards for Business Enterprises*

Maanshan BOC-Ma Steel Gases Company Limited, in which the Company holds a direct stake of 50%, is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the planning and construction of other industrial gas product projects. Net profit during the reporting period was RMB74.1 million.

Maanshan Harbor Group Co., Ltd, in which the Company holds a direct stake of 45%, is mainly engaged in stevedoring of materials at the ports; freight agency; storage services; ocean-land cargo transit; assembly and disassembly business of containers; as well as providing integrated services and repair of engineering machinery and provision of spare parts to ships involved in domestic and foreign trade. Net profit for the reporting period amounted to approximately RMB17.3 million.

Jiyuan Shi JinMa Coke Co., Ltd, in which the Company holds a direct stake of 36%, is mainly engaged in the production and sales of coke, tar, benzene and coal gas. Net profit for the reporting period amounted to approximately RMB90.5 million.

Tengzhou Shenglong Coke Co., Ltd, in which the Company holds a direct stake of 32%, is mainly engaged in production and sales of coke, tar, coal gas and coke chemical products; provision of ancillary logistics services and operation of economic and trade business. Net profit for the reporting period amounted to approximately RMB22.3 million.

Shanghai Iron and Steel Electronic Deal Center Co., Ltd., in which the Company holds a direct stake of 20%, is mainly engaged in the electronic trading of iron and steel products and the planning and setting up of the relevant ancillary services, as well as e-commerce technology and information services for iron and steel. Net profit for the reporting period amounted to approximately RMB21.8 million.

(4) *Financial position and exchange risks*

As at 30 June 2011, the total amount of loans borrowed by the Group amounted to RMB20,114 million, including loans of RMB9,491 million for working capital and long-term loans of RMB10,623 million. Except for foreign currency loans amounting to US\$1,493 million, all other loans were denominated in Renminbi. Except for a US dollar loan which carried interests at a LIBOR plus a fixed percentage, all other loans of the Group carried interests calculated at fixed interest rates. The amounts of all the Group's loans varied according to the scale of production and construction projects. No overdue loans have been recorded so far.

As at 30 June 2011, in accordance with China Accounting Standards for Business Enterprises, the Group's gearing ratio (total liabilities/total assets) was 63.60%, about 2 percentage points lower than the industry average.

As at the end of the reporting period, bank commitments to provide banking facilities to the Group amounted to approximately RMB55,123 million.

As at 30 June 2011, the Group's cash and balances with financial institutions amounted to RMB9,765 million. Bills receivable amounted to RMB8,701 million (of which bankers' acceptance bills due within three months amounted to RMB5,948 million). Deposits received for the coming month constituted a substantial part of the cash and balances with financial institutions and bank acceptance bills.

The Group's import of raw materials was mainly settled in US dollar, while import of equipment and spare parts was settled in Euro or Japanese Yen, and export of products was settled in US dollar. Given that the exchange rate of RMB to US dollar appreciated in the first half of 2010, a small amount of exchange gain was resulted from the Company's US dollar-denominated debts. Moreover, since the total amount of payments denominated in US dollar on imported iron ore is larger than that of income from export, the appreciation of RMB has no direct adverse impact to the Company. During the reporting period, the payment amount of facilities purchased in Europe and Japan was insignificant and as a result, the impact of foreign exchange fluctuations on procurement payment was relatively small. During the reporting period, as the borrowing rates of US loan were lower than that of RMB borrowing rates, along with the depreciation of US dollar, the Company has increased part of the US financing while reducing part of RMB financing. As a result, even though the finance costs of large and medium iron and steel enterprises in China increased by 33.79% year-on-year in the first half, the Group's finance cost decreased by 5.30% only.

(5) *Investments*

During the reporting period, the Group's expenses on construction projects amounted to RMB2,765 million, representing an increase of 887.38% over the previous year.

➤ Major Investment Projects Financed by Non-Fundraising Proceeds: (RMB million)

| Project name | Total investment | Construction progress |
|--|-------------------------|------------------------------|
| 1580mm hot rolling project at No.4 steel & rolling plant | 2,950 | Under construction |
| Converter and steel-refining project at No.4 steel & rolling plant | 1,019 | Under construction |
| Slab continuous casting project at No.4 steel & rolling plant | 1,008 | Under construction |
| Hot-rolled pickling plate project at No.4 steel & rolling plant | 348 | Under construction |
| CRH Train Wheel Steel Project | 2,944 | Equipment installation |
| Hydrogenation of Benzene Project for Masteel Coke Making Plant | 320 | Main equipment installation |
| Coal Moisture Controlling Project at the Coke Plant | 54 | Equipment testing |

(6) *Status of internal control*

Pursuant to the "Basic Standards for Internal Control of Enterprises" jointly published by the Ministry of Finance in conjunction with the China Securities Regulatory Commission, the National Audit Office, the China Banking Regulatory Commission and the China Insurance Regulatory Commission (the "five ministries and commissions"), the Company has established an internal control system that covers the whole process of production and operation management. The system ensures orderly conduct of various work of the Company and forms a regulated management system, giving effective identification and control over operating risks.

During the reporting period, the Company devised an internal control and audit plan; modified and improved the Company's internal control flow chart in line with the operation of the internal control system and the changes in the functions and organisation of the Company; and established a performance appraisal and accountability system for the Company's middle and senior management. In the second half, the Company will continue improving the internal control system pursuant to the requirements of the "Internal Control Guidelines for Enterprises" and "Internal Control Manual" issued by the five ministries and commissions on 15 April 2010 in combination with the actual circumstances of the Company, so as to ensure that the internal control system of the Company remains effective all the time.

(7) *The environment for production and operation and coping strategies*

In the second half, the international financial and economic landscape will become more complex and volatile, as there will be greater volatilities in the global financial market and significantly decelerating growth in the global economy. The whole situation is worsening still. Amid high unemployment rates in developed countries, rising risks of U.S. debts, enlarging risk of the spread of the European sovereign debt crisis and mounting global inflationary pressures, China will continue to take stabilizing the general price levels as the top priority of the macro-economic control initiatives. The State will adhere to the basic orientation of these initiatives and improve the pertinence, flexibility and foresightedness of its policies in line with changes in the situations, accurately mastering the intensity, pace and focus of these initiatives.

With respect to the iron and steel industry, the market for construction steel products will see robust demand, a demand driven by the commencement of construction of massive low-rent housing projects as well as large-scale hydraulic projects in the second half. The slackened growth of the shipbuilding, automobile, mechanical engineering and other sectors will result in an acute structural imbalance of products, an overcapacity of strip steel plates, and an intense competition among homogeneous products. The increase on electricity tariffs will further affect the cost of iron and steel enterprises, and the State will roll out a new pricing mechanism for refined oil products as well as other reform measures on the pricing of resource products such as cascaded electricity tariffs. On the whole, the trend of high production costs and low profits for iron and steel enterprises will continue in the short run.

In the second half, the Company will strive to accomplish various objectives for the year by taking the enhancement of profitability as the top priority, cost reduction and efficiency enhancement as a theme, and structural adjustment as a focus. Its major initiatives are as follows:

- Break down and implement the product mix adjustment plan in the second half of the year; in line with the changes in market demand and product mix adjustments, seize market shares and orders for products with high profit margins; increase outputs of key products, thereby improving the overall competitiveness.

- Reduce the procurement costs of fuels and raw materials through optimising logistics operation, strengthening the procurement of fuels and raw materials following price comparisons, reducing the procurement costs of spare parts and materials, and providing more methods for the recycling of waste and used spare parts.
- Continue to carry out the specific project of rectifying auxiliary materials for steelmaking; conduct bulk purchases; supply from inventory some varieties of auxiliary materials for steelmaking that meet requirements; establish a mechanism for the exit of auxiliary materials for steelmaking; and ensure quality of deliveries.
- Optimise coal blending, ore proportioning and materials portfolio for blast furnaces to minimise costs.
- Enhance quality control during the production process; implement a quality accountability system and a system for the pursuance of quality liability, so as to ensure profitability with quality and improve the Company's brand with quality.
- Carry out a campaign for benchmarking management and potential unleashing further by including secondary work units into the campaign, with an aim to upgrade the overall indicator level of the Company on an ongoing basis.

5.1 Analysis of principal operation by Segment and by Product

Unit: Million Currency: RMB

| Business segment/ product segment | Operating income | Operating cost | Gross profit margin (%) | Increase/(decrease) of operating income as compared to the corresponding period of the previous year (%) | Increase/(decrease) of operating cost as compared to the corresponding period of the previous year (%) | Increase/(decrease) of gross profit margin as compared to the corresponding period of the previous year (±%) |
|--------------------------------------|---------------------|-------------------|-------------------------------|--|--|--|
| Business segment | | | | | | |
| Iron and steel | 36,367 | 35,172 | 3.29 | 25.39 | 32.94 | decreased by 5.49 percentage points |
| Product segment | | | | | | |
| Steel plates | 17,836 | 17,760 | 0.43 | 15.48 | 28.55 | decreased by 10.12 percentage points |
| Section steels | 6,457 | 6,175 | 4.37 | 40.89 | 42.05 | decreased by 0.78 percentage points |
| Wire rods | 10,372 | 9,623 | 7.22 | 26.83 | 26.85 | decreased by 0.02 percentage points |
| Train wheels and wheels rims | 760 | 717 | 5.66 | 40.74 | 46.63 | decreased by 3.79 percentage points |

The amount involving connected transactions which arose from the Company's selling of its products and providing labour services to the controlling shareholder and its subsidiaries totaled RMB38 million during the reporting period.

5.2 Geographical analysis of operating income

Unit: Million Currency: RMB

| Region | Operating income | Increase/(decrease) of operating income as compared to the corresponding period of the previous year (%) |
|-------------------|------------------|---|
| Anhui | 17,367 | 23.75 |
| Jiangsu | 6,202 | 35.11 |
| Shanghai | 4,216 | 37.79 |
| Zhejiang | 2,924 | 2.96 |
| Guangdong | 2,442 | -9.33 |
| Other PRC regions | 9,346 | 21.47 |
| Exports | 655 | -33.15 |

5.3 Analysis of reasons for material changes in profitability of principal operating activities (gross profit margin) as compared to the previous year

The operating profit margin was 3.77%, a decrease of 4.34 percentage points as compared to the corresponding period of the previous year due to increases in prices of raw materials and fuels during the reporting period.

5.4 Analysis of reasons for material changes in profit breakdown as compared to the previous year

Compared to the corresponding period of the previous year, the Group's operating income increased 36.22%, which was mainly due to increases in sales volume and average price of steel products during the reporting period. Cost of sales increased by 42.66%, which was mainly due to increase in steel sale volume and increases in prices of raw materials and fuels during the reporting period. Operating tax and surcharges decreased by 24.48%, which was mainly due to decreases in city maintenance and construction taxes and education tax payable as a result of decrease in VAT payable because of decreases in sales profit margin. Selling expenses had no material difference. Administrative expenses increased by 14.16%, which was mainly due to increases in staff costs and property taxes during the reporting period. Financial expenses had no material difference. Operating profit, total profit and net profit attributable to equity holders of the Company decreased by 68.38%, 66.77% and 70.23% respectively, which were mainly due to increases in prices of raw materials and fuels during the reporting period.

5.5 Funds other than proceeds raised

| Project name | Total investment | Construction progress |
|--|------------------|-----------------------------|
| 1580mm hot rolling project at No.4 steel & rolling plant | 2,950 | Under construction |
| Converter and steel-refining project at No.4 steel & rolling plant | 1,019 | Under construction |
| Slab continuous casting project at No.4 steel & rolling plant | 1,008 | Under construction |
| Hot-rolled pickling plate project at No.4 steel & rolling plant | 348 | Under construction |
| CRH Train Wheel Steel Project | 2,944 | Equipment installation |
| Hydrogenation of Benzene Project for Masteel Coke Making Plant | 320 | Main equipment installation |
| Coal Moisture Controlling Project at the Coke Plant | 54 | Equipment testing |
| Total | 8,643 | |

6. SIGNIFICANT MATTERS

6.1 Acquisition of assets

At the meeting of the Sixth Session of the Board of the Company on 27 April 2011, it was approved that the Company will contribute approximately RMB1.234 billion in cash for the purchase of 660 million non-public offered shares of Changjiang Steel, representing 55% of the total number of shares after the capital increase and share capital enlargement by Changjiang Steel. Payment for the consideration of acquisition of shares and the procedures for industry and commence registration transfer were completed on 30 April 2011. The acquisition date was confirmed as 30 April 2011. On the acquisition date, the net asset fair value of Changjiang Steel amounted to RMB2,244 million. From the date of the purchase to the end of the reporting period, Changjiang Steel contributed to the Company a net profit of RMB17.6 million, representing 4.76% of the net profit of the Group.

6.2 Guarantees

Unit: Million Currency: US\$

| Guarantees provided by the Company for subsidiaries | |
|---|----|
| Total guarantee amount for subsidiaries during the reporting period | 0 |
| Balance of guarantees for subsidiaries at the end of the reporting period | 55 |
| Total guarantee amount provided by the Company (including guarantees for subsidiaries) | |
| Total guarantee amount | 55 |
| Including: | |
| Guarantee amount provided for shareholders, the de facto controller and connected parties | 0 |
| Guarantee amount provided directly or indirectly for entities with gearing (assets–liabilities) ratio exceeding 70% | 0 |
| Total guarantee amount exceeding 50% of net assets | 0 |
| Total amount of the three guarantees mentioned above | 0 |

6.3 Debt relations with connected parties

Unit: Million Currency: RMB

| Connected party | Connected relation | Type of connected transaction | Details of connected transaction | Pricing principles of connection transaction | Amounts of connected transaction | Proportion to amount of the transaction under the same category (%) |
|------------------------------|--------------------|-------------------------------|---|--|----------------------------------|---|
| Holding and its subsidiaries | Holding company | Sale | Sale of steel coils and other products | Mutual agreement | 1 | – |
| Holding and its subsidiaries | Holding company | Sale | Collecting fees from providing facilities, services and other commodities | Mutual agreement | 37 | 4.08 |

| Connected party | Connected relation | Type of connected transaction | Details of connected transaction | Pricing principles of connection transaction | Amounts of connected transaction | Proportion to amount of the transaction under the same category (%) |
|---|----------------------------|--------------------------------------|---|---|---|--|
| Holding and its subsidiaries | Holding company | Procurement | Procurement of iron ore, limestone and dolomite | Under "Sale and Purchase of Ore Agreement" | 1,160 | 5.37 |
| Holding and its subsidiaries | Holding company | Procurement | Procurement of fixed assets and construction fees | Mutual agreement | 120 | 41.59 |
| Holding and its subsidiaries | Holding company | Procurement | Disbursement of service fees | Mutual agreement | 101 | 100.00 |
| Holding and its subsidiaries | Holding company | Procurement | Rental expenses | Mutual agreement | 24 | 100.00 |
| Holding and its subsidiaries | Holding company | Procurement | Agency fee | Mutual agreement | 9 | 100.00 |
| Holding and its subsidiaries | Holding company | Procurement | Interests on loans | Mutual agreement | 0.2 | 0.01 |
| Tengzhou Shenglong Coke Co., Ltd | Associate | Procurement | Procurement of coke | Mutual agreement | 117 | 7.00 |
| Maanshan Harbour Group Co., Limited | Associate | Procurement | Loading expenses | Mutual agreement | 78 | 14.85 |
| Maanshan BOC-Ma Steel Gases Company Limited | Jointly controlled company | Sale | Collecting rental fees | Mutual agreement | 1 | 65.79 |

| Connected party | Connected relation | Type of connected transaction | Details of connected transaction | Pricing principles of connection transaction | Amounts of connected transaction | Proportion to amount of the transaction under the same category (%) |
|---|----------------------------|--------------------------------------|--|---|---|--|
| Maanshan BOC-Ma Steel Gases Company Limited | Jointly controlled company | Sale | Collecting public utility fees and facility utility fees | Mutual agreement | 5 | 100.00 |
| Maanshan BOC-Ma Steel Gases Company Limited | Jointly controlled company | Sale | Collecting public utility fees including providing electricity | Mutual agreement | 135 | 69.08 |
| Maanshan BOC-Ma Steel Gases Company Limited | Jointly controlled company | Procurement | Procurement of gases | Mutual agreement | 260 | 100.00 |

6.4 Other significant matters and their impact and analysis and explanation on relevant solutions

6.4.1 Securities investments

| Item no. | Securities code | Abbreviation | Initial investment amount (RMB) | Number of shares held | Book value at the end of the reporting period (RMB) | Proportion of securities investment at the end of the reporting period (%) | Gains or losses during the reporting period |
|----------|-----------------|--|---------------------------------|-----------------------|---|--|---|
| 1 | 601857 | PetroChina | 584,500 | 35,000 | 381,150 | 50.56 | -25,900 |
| 2 | 601390 | China Railway Group | 158,400 | 33,000 | 131,670 | 17.47 | -13,200 |
| 3 | 601186 | China Railway Construction Corporation Limited | 201,960 | 20,000 | 121,000 | 16.05 | -19,800 |
| 4 | 601898 | China Coal | <u>181,600</u> | <u>12,000</u> | <u>120,000</u> | <u>15.92</u> | <u>-13,920</u> |
| Total | | | <u>1,126,460</u> | <u>-</u> | <u>753,820</u> | <u>100</u> | <u>-72,820</u> |

6.5 Purchase, sales or redemption of listed securities of the Company

During the first half of 2011, the Company has not redeemed any of its securities. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed securities.

6.6 Pre-emptive rights

According to the articles of association of the Company and the laws of the PRC, there are no provisions to grant the existing shareholders of the Company pre-emptive rights for subscribing new shares in proportion to their shareholdings whenever the Company issues new shares.

6.7 Public float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this announcement, the Company has fulfilled the public float requirement as prescribed by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

6.8 Code on corporate governance

The Company has complied with all the code provisions of the Code on Corporate Governance as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited during the first half of 2011.

All of the directors of the Company have confirmed in written form that they have complied with the requirements under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

7. FINANCIAL STATEMENTS

According to the *Consultation Conclusion on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong* which was published by The Stock Exchange of Hong Kong Limited (“SEHK”) in December 2010, the Mainland incorporated companies listed in Hong Kong are allowed to prepare financial statements, for the purpose of fulfilling the financial reporting requirements of the SEHK, in accordance with the China Accounting Standards for Business Enterprises (“CAS”) and to arrange for such financial statements to be audited by a limited number of Mainland China audit firms which are approved by the Ministry of Finance of China and the China Securities Regulatory Commission for such purpose (“Auditing Arrangement”).

The following selected consolidated financial information was prepared in accordance with CAS:

7.1 Auditors’ opinion

Financial statements

unaudited

audited

7.2 Financial statements

CONSOLIDATED AND COMPANY BALANCE SHEET

30 June 2011

Renminbi Yuan

| ASSETS: | 30 June 2011 Group Unaudited | 31 December 2010 Group Audited | 30 June 2011 Company Unaudited | 31 December 2010 Company Audited | |
|-----------------------------------|---------------------------------------|---|---|---|------------------------------|
| | <i>Note</i> | | | | |
| CURRENT ASSETS: | | | | | |
| Cash and bank balances | | 9,764,800,762 | 6,382,691,015 | 5,147,972,185 | 3,087,223,561 |
| Financial assets held for trading | | 753,820 | 826,640 | 753,820 | 826,640 |
| Bills receivable | 3 | 8,700,994,746 | 8,374,602,622 | 6,867,716,673 | 7,456,373,686 |
| Trade receivables | 4 | 1,173,253,540 | 1,097,779,220 | 1,734,041,957 | 2,350,835,807 |
| Dividends payable | | 109,409,394 | 118,800,000 | 205,389,698 | 197,494,579 |
| Prepayments | 5 | 4,017,199,272 | 1,377,143,617 | 3,918,662,717 | 1,278,962,474 |
| Other receivables | | 1,072,643,109 | 711,812,863 | 62,207,520 | 73,786,134 |
| Inventories | | 14,150,033,938 | 12,451,795,018 | 10,436,497,653 | 10,601,699,907 |
| Total current assets | | <u>38,989,088,581</u> | <u>30,515,450,995</u> | <u>28,373,242,223</u> | <u>25,047,202,788</u> |
| NON-CURRENT ASSETS: | | | | | |
| Long term equity investments | | 1,039,679,988 | 1,034,491,013 | 4,572,581,109 | 2,219,360,976 |
| Investment properties | | 6,660,046 | 6,771,343 | 17,964,582 | 17,999,035 |
| Fixed assets | | 33,628,839,592 | 34,405,603,226 | 29,974,477,138 | 32,075,219,828 |
| Construction materials | | 262,340,546 | 281,058,134 | 258,486,944 | 252,574,410 |
| Construction in progress | | 3,281,132,764 | 1,504,328,744 | 1,809,167,534 | 1,420,353,347 |
| Intangible assets | | 2,018,597,884 | 1,863,353,636 | 1,198,993,474 | 1,215,033,032 |
| Deferred tax assets | | 486,372,545 | 493,868,095 | 462,035,687 | 479,719,267 |
| Total non-current assets | | <u>40,723,623,365</u> | <u>39,589,474,191</u> | <u>38,293,706,468</u> | <u>37,680,259,895</u> |
| TOTAL ASSETS | | <u>79,712,711,946</u> | <u>70,104,925,186</u> | <u>66,666,948,691</u> | <u>62,727,462,683</u> |

CONSOLIDATED AND COMPANY BALANCE SHEET (CONTINUED)

30 June 2011

Renminbi Yuan

| LIABILITIES AND SHAREHOLDERS' EQUITY: | 30 June 2011 Group Unaudited | 31 December 2010 Group Audited | 30 June 2011 Company Unaudited | 31 December 2010 Company Audited |
|--|---------------------------------------|---|---|---|
| | <i>Note</i> | | | |
| CURRENT LIABILITIES: | | | | |
| Short term loans | 5,124,692,013 | 977,093,278 | 258,864,000 | 264,908,000 |
| Bills payable | 6,480,283,121 | 5,269,342,225 | 3,698,570,000 | 2,762,510,000 |
| Accounts payable | 7,568,414,651 | 5,550,236,792 | 7,633,469,995 | 4,730,311,762 |
| Deposits received | 8,027,859,222 | 8,127,236,452 | 6,091,606,885 | 6,832,999,783 |
| Payroll and benefits payable | 341,254,128 | 284,521,457 | 252,355,179 | 229,661,197 |
| Taxes payable | (450,166,380) | (411,180,601) | (393,615,998) | (388,889,831) |
| Interests payable | 40,172,506 | 58,185,998 | 39,978,613 | 58,022,621 |
| Dividends payable | 463,862,599 | 506,995,720 | 382,097,078 | 506,995,720 |
| Other payables | 1,077,575,077 | 946,266,361 | 952,268,678 | 895,353,523 |
| Non-current liabilities due within one year | <u>9,821,161,176</u> | <u>7,857,611,313</u> | <u>9,821,161,176</u> | <u>7,843,611,313</u> |
| Total current liabilities | <u>38,495,108,113</u> | <u>29,166,308,995</u> | <u>28,736,755,606</u> | <u>23,735,484,088</u> |
| NON-CURRENT LIABILITIES: | | | | |
| Long term loans | 10,623,362,800 | 11,368,731,100 | 10,514,362,800 | 11,278,731,100 |
| Bonds payable | 998,333,000 | 997,833,200 | 998,333,000 | 997,833,200 |
| Deferred income | 532,280,455 | 573,288,652 | 501,390,251 | 540,572,623 |
| Deferred tax liabilities | 45,226,879 | - | - | - |
| Total non-current liabilities | <u>12,199,203,134</u> | <u>12,939,852,952</u> | <u>12,014,086,051</u> | <u>12,817,136,923</u> |
| Total liabilities | <u>50,694,311,247</u> | <u>42,106,161,947</u> | <u>40,750,841,657</u> | <u>36,552,621,011</u> |
| SHAREHOLDERS' EQUITY: | | | | |
| Share capital | 7,700,681,186 | 7,700,681,186 | 7,700,681,186 | 7,700,681,186 |
| Capital reserve | 8,338,358,399 | 8,338,358,399 | 8,338,358,399 | 8,338,358,399 |
| Surplus reserves | 3,206,200,814 | 3,206,200,814 | 2,964,168,101 | 2,964,168,101 |
| Retained profits | 7,933,160,711 | 8,008,142,354 | 6,912,899,348 | 7,171,633,986 |
| Including: Proposed cash dividend | 6 | - | - | 385,034,059 |
| Exchange fluctuation reserve | 53,835,368 | 40,704,768 | - | - |
| Equity attributable to equity holders of the parent | <u>27,232,236,478</u> | <u>27,294,087,521</u> | <u>25,916,107,034</u> | <u>26,174,841,672</u> |
| Minority interests | <u>1,786,164,221</u> | <u>704,675,718</u> | <u>-</u> | <u>-</u> |
| Total shareholder's equity | <u>29,018,400,699</u> | <u>27,998,763,239</u> | <u>25,916,107,034</u> | <u>26,174,841,672</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u><u>79,712,711,946</u></u> | <u><u>70,104,925,186</u></u> | <u><u>66,666,948,691</u></u> | <u><u>62,727,462,683</u></u> |

CONSOLIDATED AND COMPANY INCOME STATEMENT

For the six months ended 30 June 2011

Renminbi Yuan

| | Note | For the six months, ended 30 June | | For the six months, ended 30 June | |
|---|------|--------------------------------------|----------------|--------------------------------------|-----------------|
| | | 2011 Group | 2010 Group | 2011 Company | 2010 Company |
| Revenue | 7 | 43,151,233,659 | 31,676,470,966 | 38,717,188,205 | 31,963,584,669 |
| Less: Cost of sales | 7 | 41,526,530,287 | 29,108,534,376 | 37,855,424,317 | 29,916,137,387 |
| Taxes and surcharges | | 131,323,578 | 173,895,391 | 105,760,655 | 158,638,006 |
| Selling expenses | | 125,975,922 | 115,262,315 | 113,305,306 | 104,339,055 |
| Administrative expenses | | 611,429,738 | 535,595,837 | 455,931,467 | 423,653,025 |
| Financial expenses | | 405,416,586 | 428,089,275 | 223,827,456 | 339,152,431 |
| Assets impairment losses | | – | 13,906,462 | – | 13,906,462 |
| Add: Loss on fair value changes | | (72,820) | (87,920) | (72,820) | (87,920) |
| Investment income | | 88,594,003 | 87,699,598 | 140,788,606 | 254,665,451 |
| including: share of profits of associates and jointly controlled entities | | 89,385,084 | 82,901,417 | 88,298,370 | 82,228,847 |
| Operating profit | | 439,078,731 | 1,388,798,988 | 103,654,790 | 1,262,335,834 |
| Add: Non-operating income | | 53,904,419 | 81,279,445 | 42,003,511 | 71,909,842 |
| Less: Non-operating expenses | | 4,604,980 | 418,009 | 1,675,300 | 379,607 |
| including: net loss/(gain) on disposal of non-current assets | | 2,654,836 | (2,118,190) | (2,999,882) | (1,347,085) |
| Profit before tax | | 488,378,170 | 1,469,660,424 | 143,983,001 | 1,333,866,069 |
| Less: Income tax | | 118,045,237 | 390,186,567 | 17,683,580 | 328,086,567 |
| Net profit | | 370,332,933 | 1,079,473,857 | 126,299,421 | 1,005,779,502 |
| Less: Minority interests | | 60,280,517 | 37,834,362 | N/A | N/A |
| Equity holders of the parent | | 310,052,416 | 1,041,639,495 | 126,299,421 | 1,005,779,502 |
| EARNINGS PER SHARE: | 8 | | | | |
| Basic (cents) | | 4.03 | 13.53 | N/A | N/A |
| Diluted | | N/A | N/A | N/A | N/A |
| Other comprehensive income | | 13,130,600 | (19,277,392) | – | – |
| Total comprehensive income | | 383,463,533 | 1,060,196,465 | 126,299,421 | 1,005,779,502 |
| Attributable to: | | | | | |
| Equity holders of the parent | | 323,183,016 | 1,022,362,103 | 126,299,421 | 1,005,779,502 |
| Minority interests | | 60,280,517 | 37,834,362 | N/A | N/A |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

Renminbi Yuan

30 June 2011

| | Attributable to equity holders of the parent | | | | | | Minority interests | Total shareholders' equity |
|--|--|----------------------|----------------------|----------------------|------------------------------|-----------------------|----------------------|----------------------------|
| | Share capital | Capital reserve | Surplus reserves | Retained profits | Exchange fluctuation reserve | Sub-total | | |
| 1. At 1 January 2011 | 7,700,681,186 | 8,338,358,399 | 3,206,200,814 | 8,008,142,354 | 40,704,768 | 27,294,087,521 | 704,675,718 | 27,998,763,239 |
| 2. Increase/(decrease) during the period | | | | | | | | |
| 1) Net profit | - | - | - | 310,052,416 | - | 310,052,416 | 60,280,517 | 370,332,933 |
| 2) Other comprehensive income | - | - | - | - | 13,130,600 | 13,130,600 | - | 13,130,600 |
| Total comprehensive income | - | - | - | 310,052,416 | 13,130,600 | 323,183,016 | 60,280,517 | 383,463,533 |
| 3) Capital contribution and withdrawal by shareholders | | | | | | | | |
| 1. Capital contribution from minority shareholders | - | - | - | - | - | - | 37,500,000 | 37,500,000 |
| 2. Acquisition of subsidiary | - | - | - | - | - | - | 1,010,000,000 | 1,010,000,000 |
| 4) Profits appropriation | | | | | | | | |
| 1. Dividend declared to shareholders | - | - | - | (385,034,059) | - | (385,034,059) | - | (385,034,059) |
| 2. Dividend declared to minority shareholders | - | - | - | - | - | - | (26,292,014) | (26,292,014) |
| 3. At 30 June 2011 | <u>7,700,681,186</u> | <u>8,338,358,399</u> | <u>3,206,200,814</u> | <u>7,933,160,711</u> | <u>53,835,368</u> | <u>27,232,236,478</u> | <u>1,786,164,221</u> | <u>29,018,400,699</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2011

Renminbi Yuan

30 June 2010

| | Attributable to equity holders of the parent | | | | | | Minority interests | Total shareholders' equity |
|--|--|----------------------|----------------------|----------------------|------------------------------|-----------------------|--------------------|----------------------------|
| | Share capital | Capital reserve | Surplus reserves | Retained profits | Exchange fluctuation reserve | Sub-total | | |
| 1. At 1 January 2010 | 7,700,681,186 | 8,338,358,399 | 3,057,920,649 | 7,350,273,452 | 17,419,949 | 26,464,653,635 | 720,208,964 | 27,184,862,599 |
| 2. Increase/(decrease) during the period | | | | | | | | |
| 1) Net profit | - | - | - | 1,041,639,495 | - | 1,041,639,495 | 37,834,362 | 1,079,473,857 |
| 2) Other comprehensive income | - | - | - | - | (19,277,392) | (19,277,392) | - | (19,277,392) |
| Total comprehensive income | - | - | - | 1,041,639,495 | (19,277,392) | 1,022,362,103 | 37,834,362 | 1,060,196,465 |
| 3) Capital contribution and withdrawal by shareholders | | | | | | | | |
| 1. Acquisition of minority interests | - | - | - | - | - | - | (32,790,825) | (32,790,825) |
| 2. Others | - | - | 12,337,798 | - | - | 12,337,798 | 5,039,382 | 17,377,180 |
| 4) Profits appropriation | | | | | | | | |
| 1. Dividend declared to shareholders | - | - | - | (308,027,247) | - | (308,027,247) | - | (308,027,247) |
| 2. Dividend declared to minority shareholders | - | - | - | - | - | - | (73,234,870) | (73,234,870) |
| 3. At 30 June 2010 | <u>7,700,681,186</u> | <u>8,338,358,399</u> | <u>3,070,258,447</u> | <u>8,083,885,700</u> | <u>(1,857,443)</u> | <u>27,191,326,289</u> | <u>657,057,013</u> | <u>27,848,383,302</u> |

CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2011

Renminbi Yuan

| | For the six months ended 30 June | |
|---|-------------------------------------|-------------------|
| | 2011 Unaudited | 2010 Unaudited |
| 1. Cash flows from operating activities: | | |
| Cash received from sale of goods or rendering of services | 51,249,647,349 | 37,201,460,117 |
| Cash received relating to other operating activities | 13,112,965 | 39,305,498 |
| Sub-total of cash inflows | 51,262,760,314 | 37,240,765,615 |
| Cash paid for goods and services | (45,921,354,410) | (33,621,163,366) |
| Cash paid to and on behalf of employees | (2,028,933,393) | (1,833,031,852) |
| Cash paid for all taxes | (1,339,367,646) | (1,933,595,981) |
| Cash paid relating to other operating activities | (401,015,056) | (367,179,070) |
| Sub-total of cash outflows | (49,690,670,505) | (37,754,970,269) |
| Net cash flows from operating activities | 1,572,089,809 | (514,204,654) |
| 2. Cash flows from investing activities: | | |
| Cash received from returns on investments | 136,981,908 | 116,572,507 |
| Net cash received from disposal of fixed assets, intangible assets and other long term assets | 52,250,555 | 20,013,991 |
| Cash received from decrease of pledged deposits | 28,720,803 | 1,319,849,124 |
| Cash received relating to other investing activities | 383,261,393 | 49,432,000 |
| Sub-total of cash inflows | 601,214,659 | 1,505,867,622 |
| Cash paid for acquisitions of fixed assets, intangible assets and other long term assets | (1,534,663,434) | (778,669,720) |
| Cash paid for investments | (490,000,000) | (4,900,000) |
| Sub-total of cash outflows | (2,024,663,434) | (783,569,720) |
| Net cash flows from investing activities | (1,423,448,775) | 722,297,902 |

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the six months ended 30 June 2011

Renminbi Yuan

| | For the six months ended 30 June | |
|--|-------------------------------------|-----------------|
| | 2011 | 2010 |
| | Unaudited | Unaudited |
| 3. Cash flows from financing activities: | | |
| Cash received from borrowings | 12,735,490,513 | 6,386,977,124 |
| Cash received from capital contribution | 37,500,000 | – |
| including: capital contribution by minority shareholders received by subsidiaries | 37,500,000 | – |
| Sub-total of cash inflows | 12,772,990,513 | 6,386,977,124 |
| Cash repayments of borrowings | (8,468,907,717) | (6,571,617,805) |
| Cash paid for distribution of dividend or profits and for interest expenses | (1,018,667,332) | (502,017,320) |
| including: dividend paid to minority shareholders by subsidiaries | (18,872,243) | (25,566,752) |
| Sub-total of cash outflows | (9,487,575,049) | (7,073,635,125) |
| Net cash flows from financing activities | 3,285,415,464 | (686,658,001) |
| 4. Effect of foreign exchange rate changes on cash | (23,225,948) | (61,318,195) |
| 5. Net increase/(decrease) in cash and cash equivalents | 3,410,830,550 | (539,882,948) |
| Add: Balance of cash and cash equivalents at the beginning of period | 5,385,065,613 | 5,502,947,835 |
| 6. Balance of cash and cash equivalents at the end of period | 8,795,896,163 | 4,963,064,887 |

1. ACCOUNTING POLICES

The financial statements are prepared in accordance with the “China Accounting Standards for Business Enterprises – General Principals” and 38 specific accounting standards issued by the Ministry of Finance (the “MOF”) in February 2006, application guidance, interpretations and other related regulations issued later on (collectively known as the “CAS”). The financial statements are prepared based on an ongoing basis.

The accounting policies and basis of preparation adopted in the preparation of the interim consolidated financial statements are the same as those used in the annual financial statements ended 31 December 2010.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organized as a single business unit focusing on the manufacture and sales of iron and steel products and related by-products, and, therefore, has no separable operating segment.

Principal operating income from external customers based on the location of customer is analyzed as follows:

| | For the six months ended 30 June | |
|----------|---|------------------------------|
| | 2011 | 2010 |
| | Unaudited | Unaudited |
| | RMB | RMB |
| The PRC | 37,460,289,727 | 29,212,894,099 |
| Overseas | 654,994,144 | 979,874,013 |
| Total | <u>38,115,283,871</u> | <u>30,192,768,112</u> |

The geographical location of the Group's non-current assets is analysed as follows:

| | 30 June | 31 December |
|----------|------------------------------|------------------------------|
| | 2011 | 2010 |
| | Unaudited | Audited |
| | RMB | RMB |
| The PRC | 40,101,688,591 | 38,893,484,379 |
| Overseas | 135,562,229 | 202,121,717 |
| Total | <u>40,237,250,820</u> | <u>39,095,606,096</u> |

The non-current asset information above is based on the location of assets and excludes financial instruments and deferred tax assets.

The Group has not placed reliance on any single external customer which accounted for 10% or more of its revenue.

3. BILLS RECEIVABLE

| | 30 June | 31 December |
|-----------------------|-----------------------------|-----------------------------|
| | 2011 | 2010 |
| | Unaudited | Audited |
| Bank acceptance bills | <u>8,700,994,746</u> | <u>8,374,602,622</u> |

As at 30 June 2011, the Group pledge bill receivable amounted to RMB96,389,698 for bank loans amounted to RMB96,000,000 (31 December 2010: nil).

4. TRADE RECEIVABLES

The Group's credit terms are usually 30 to 90 days. The trade receivables are interest free.

The ageing of trade receivables is analyzed below:

| | 30 June 2011 Unaudited | 31 December 2010 Audited |
|--------------------------------|---------------------------------------|--------------------------------|
| Within one year | 1,111,980,402 | 1,049,949,000 |
| One to two years | 57,432,509 | 39,677,062 |
| Two to three years | 6,869,730 | 11,293,541 |
| Over three years | 13,917,396 | 12,649,598 |
| | 1,190,200,037 | 1,113,569,201 |
| Less: Provisions for bad debts | 16,946,497 | 15,789,981 |
| Total | 1,173,253,540 | 1,097,779,220 |

An analysis of the amount of bad debts provisions written off in the current reporting period:

| Reason | For the six months ended 30 June | |
|--|---|-------------------|
| | 2011 Unaudited | 2010 Unaudited |
| Debtors with age over 3 years and demonstrated by sufficient evidence that they were irrecoverable | – | – |
| Less: Reversal of bad debts provisions written-off in prior year | – | 4,000 |
| Total | – | (4,000) |

5. PREPAYMENT

The ageing of prepayment balance is analysed as follows:

| | 30 June 2011 Unaudited | | 31 December 2010 Audited | |
|--------------------|-----------------------------------|--------------|-----------------------------|-------|
| | Balance | ratio | Balance | ratio |
| Within one year | 3,977,534,869 | 99 | 1,353,499,820 | 98 |
| One to two years | 27,704,298 | 1 | 8,415,265 | 1 |
| Two to three years | 2,832,140 | – | 5,170,354 | – |
| Over three years | 9,127,965 | – | 10,058,178 | 1 |
| Total | 4,017,199,272 | 100 | 1,377,143,617 | 100 |

Prepayments aged over one year were mainly prepayments for unsettled construction projects. The final inspection of certain of the Group's construction projects were not yet completed which resulted in the unsettlement of the corresponding prepayments. The above prepayments for construction projects will be written off against relevant estimated liabilities (recorded in trade payables) when the final inspection and settlement were completed.

6. DIVIDEND

The board of directors do not recommend the payment of any interim dividend for the six months ended 30 June 2011 (30 June 2010: Nil).

7. REVENUE AND COST OF SALES

Revenue is stated as follows:

| | For the six months ended 30 June | |
|----------------------------|---|------------------------------|
| | 2011 Unaudited | 2010 Unaudited |
| Principal operating income | 38,115,283,871 | 30,192,768,112 |
| Other operating income | 5,035,949,788 | 1,483,702,854 |
| | <hr/> | <hr/> |
| Total | <u>43,151,233,659</u> | <u>31,676,470,966</u> |

Principal operating income represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sales taxes and intra-group transactions.

Cost of sales is stated as follows:

| | For the six months ended 30 June | |
|-------------------------|---|------------------------------|
| | 2011 Unaudited | 2010 Unaudited |
| Principal cost of sales | 36,734,429,606 | 27,879,861,413 |
| Other cost of sales | 4,792,100,681 | 1,228,672,963 |
| | <hr/> | <hr/> |
| Total | <u>41,526,530,287</u> | <u>29,108,534,376</u> |

8. EARNINGS PER SHARE

Basic earnings per share shall be calculated by dividing net income attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the current reporting period. Shares are usually included in the weighted average number of shares from the date of their issue.

The calculations of basic and diluted earnings per share amounts are as follows:

| | For the six months ended 30 June | |
|--|-------------------------------------|-------------------|
| | 2011 Unaudited | 2010 Unaudited |
| The calculations of basic and diluted earnings per share amounts are based on: | | |
| | 310,052,416 | 1,041,639,495 |
| Weighted average number of ordinary shares in issue during the period | 7,700,681,186 | 7,700,681,186 |
| basic earnings per share (cents) | <u>4.03</u> | <u>13.53</u> |

Diluted earnings per share is calculated by adjusted net profit for the current period attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding.

During the current period, there was no diluted item to adjust the Group's basic earnings per share.

9. BUSINESS COMBINATION INVOLVING ENTITIES NOT UNDER COMMON CONTROL

As at 30 April 2011, the Company acquired 55% equity interests of Anhui Chang Jiang Iron and Steel for a cash consideration of RMB1.23 billion. The consideration of acquisition has been paid, and the procedures for the transfer of equity interests have been completed on 30 April 2011. The acquisition date was determined as 30 April 2011.

As at the acquisition date, the book values and fair values of Anhui Chang Jiang Iron and Steel's identifiable assets and liabilities were as follows:

| | 30 April 2011 Fair value | 30 April 2011 Book value |
|---------------------|-----------------------------|-----------------------------|
| Net assets | 2,244,444,444 | 2,106,536,915 |
| Minority interests | 1,010,000,000 | 947,941,612 |
| | <u>1,234,444,444</u> | <u>1,158,595,303</u> |
| Goodwill | — | — |
| Cost of acquisition | <u>1,234,444,444</u> | — |

The operating result and cash flow of Anhui Chang Jiang Iron and Steel during the period from the date of acquisition to the period end are as follows:

| | From 30 April 2011 to 30 June 2011 |
|--|---|
| Revenue | 921,350,063 |
| Net profit | 17,643,344 |
| Net cash flows from operating activities | (391,627,000) |
| Net cash flows from investing activities | (9,194,393) |
| Net cash flows from financing activities | (769,597,750) |

10. CONTINGENT LIABILITIES

(a) Guarantee

As at 30 June 2011, the Company had granted guarantees amounting to approximately RMB0.356 billion (31 December 2010: approximately RMB0.374 billion) to banks in connection with facilities granted to its subsidiaries. As at 30 June 2011, there were no facilities utilised (31 December 2010: Nil).

(b) Difference of corporate income tax

As detailed in Note III. 3 to the financial statements, the Group still has potential risks on corporate income tax in prior years to be determined. The directors of the Company consider that it is not possible to reliably estimate whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision or adjustment has been made in these financial statements in respect of the extra tax and related tax concessions, deferred tax, penalty and interests (if applicable).

11. NET CURRENT ASSETS

| | The Group | | The Company | |
|----------------------------------|---------------------------|----------------------|-----------------------------|----------------------|
| | 30 June 2011 | 31 December 2010 | 30 June 2011 | 31 December 2010 |
| | Unaudited | Audited | Unaudited | Audited |
| Current assets | 38,989,088,581 | 30,515,450,995 | 28,373,242,223 | 25,047,202,788 |
| Less: Current liabilities | 38,495,108,113 | 29,166,308,995 | 28,736,755,606 | 23,735,484,088 |
| Net current assets/(liabilities) | <u>493,980,468</u> | <u>1,349,142,000</u> | <u>(363,513,383)</u> | <u>1,311,718,700</u> |

12. TOTAL ASSETS LESS CURRENT LIABILITIES

| | The Group | | The Company | |
|---------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 30 June 2011 Unaudited | 31 December 2010 Audited | 30 June 2011 Unaudited | 31 December 2010 Audited |
| Total assets | 79,712,711,946 | 70,104,925,186 | 66,666,948,691 | 62,727,462,683 |
| Less: Current liabilities | 38,495,108,113 | 29,166,308,995 | 28,736,755,606 | 23,735,484,088 |
| Total assets less current liabilities | <u>41,217,603,833</u> | <u>40,938,616,191</u> | <u>37,930,193,085</u> | <u>38,991,978,595</u> |

By Order of the Board
Su Jiangang
Chairman

18 August 2011
Maanshan City, Anhui Province, the PRC

As at the date of this announcement, the directors of the Company include:

Executive Directors: Su Jiangang, Gao Haijian, Hui Zhigang

Non-executive Director: Zhao Jianming

Independent Non-executive Directors: Wong Chun Wa, Su Yong, Hui Leung Wah, Han Yi